

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17657
September 12, 2019**

RESOLUTION

Resolution T-17657, Kerman Telephone Company. Order authorizing recovery of \$489,486.30, in revenue shortfall through the California High Cost Fund-A due to the post-January 1, 2016, effective date of Kerman Telephone Company Test Year 2016 General Rate Case Decision 16-06-053.

By Advice Letter 407A, filed on May 28, 2019.

SUMMARY

By Advice Letter 407A filed May 28, 2019, Kerman Telephone Company (Kerman) requests recovery of a revenue shortfall of \$489,486.30 through the California High Cost Fund-A, pursuant to Ordering Paragraph 2 of Decision 16-02-022 and Ordering Paragraph 4 of Decision 16-06-053 in General Rate Case Application (A.)11-12-011. The revenue shortfall occurred because the Commission adopted the General Rate Case Decision 16-06-053 after the start of the 2016 test year. This Resolution approves Kerman's recovery request of \$489,486.30 from the California High Cost Fund-A.

BACKGROUND

Kerman Telephone Company (Kerman) owns and operates a telephone system that provides local exchange telephone service to approximately 4,900 customers in the City of Kerman and in surrounding unincorporated areas of Fresno County. Kerman is eligible for California High Cost Fund-A (CHCF-A) support pursuant to Public Utilities (P.U.) Code § 275.6.

On December 28, 2011, Kerman filed a General Rate Case (GRC) A.11-12-011 seeking an updated revenue requirement and a new rate design. A decision in this proceeding was delayed due to the Commission's deliberation in its California High Cost Fund-A Rulemaking (R.)11-11-007, which had a direct bearing on Kerman as a CHCF-A support recipient.

On January 29, 2016, Kerman filed a Motion for Interim Relief (Motion) due to this delay. In the Motion, Kerman requested interim relief in the amount of \$1,112,373, based on its calculated revenue requirement of \$9,913,767 for Test Year (TY) 2016.

On February 25, 2016, the Commission adopted D.16-02-022 granting Kerman's Motion. The Commission approved Kerman's interim revenue requirement of \$9,913,767, which resulted in a CHCF-A draw increase of \$1,112,373, to be divided into twelve equal monthly payments of \$92,697.75. The Commission ordered the Communications Division Staff (Staff) to issue the interim relief payments concurrent with the CHCF-A payments that the Commission authorized for Calendar Year (CY) 2016,¹ during the pendency of the GRC proceeding. In granting the interim relief, the Commission kept Kerman's end users' rates unchanged and held that the interim relief was subject to true-up and possible refund to the CHCF-A, after a final revenue requirement and rates were adopted for TY 2016.² While the GRC proceeding was in process, Kerman received six monthly CY CHCF-A support payments, which included interim relief during the months of February through July of 2016.

On June 23, 2016, the Commission issued D.16-06-053 and adopted a final revenue requirement and rates for Kerman's TY 2016. The Commission ordered Kerman to file a Tier 3 Advice Letter (AL) to true-up the difference between its interim revenue requirement—including CHCF-A support and interim relief—and its newly adopted revenue requirement.

On July 29, 2016, Kerman filed Tier 3 AL 407 as directed by D.16-02-022 and D.16-06-053 to true-up its interim relief to adopted rates for TY 2016. On February 9, 2017, the Commission adopted Resolution T-17531, denying the interim relief provided from February through July and ordering Kerman to refund \$559,783.78 to the CHCF-A.

On March 16, 2017, Kerman filed an application for rehearing of Resolution T-17531. On December 5, 2017, the Commission adopted D.17-11-036 denying Kerman's application for rehearing.

On January 4, 2018, Kerman filed a petition for writ of review for D.17-11-036 in the Fifth Appellate District, Court of Appeal of the State of California (Court). On April 26, 2019, the Court annulled Resolution T-17531 and D.17-11-036 and remanded the case to the Commission to reconsider Kerman's interim relief request (AL 407).

¹ Resolution T-17505

² D.16-02-022, p. 3.

DISCUSSION

In the interim relief decision (D.16-02-022), the Commission held that the interim relief granted to Kerman was subject to a future true-up and possible refund.³ If Kerman's final CHCF-A draw is less than the interim draw, the Commission held that Kerman should return the difference to the CHCF-A.⁴ In addition, in OP 4, the Commission held that:

The payments to Kerman Telephone Co. (Kerman) authorized by this decision shall be subject to true-up and possible refund. The refund, if any, shall be a one-time lump sum payment from Kerman to the California High Cost-Fund A (CHCF-A) fund with interest calculated using the 3-month commercial paper rate from the date of the payment by the CD (*Communications Division*). The lump sum refund, including interest, shall be paid by Kerman within 45 days from the effective date of the final order in this application. On the other hand, if the ultimate draw at the conclusion of the proceeding is larger than the interim draw, additional CHCF-A shall be available to make up the difference back to February 1, 2016.⁵

In Kerman's TY 2016 GRC D.16-06-053, OP 2, the Commission reaffirmed its true-up methodology that it established in D.16-02-022, OP 4, and provided further guidance regarding the true-up calculation as follows:

Kerman Telephone Company shall file a Tier 3 Advice Letter to true-up the difference between interim rates, including 2016 California High Cost Fund-A support and interim rate relief, for the period January 1, 2016 to the implementation date of the rates adopted in this order, in compliance with General Order 96-B, Industry Rule 7.3(5) (an update by a GRC-LEC regarding its allocation from the high cost fund.)⁶

³ *Id.*

⁴ *Id.*

⁵ D.16-02-022, OP 4.

⁶ D.16-06-053, OP 2.

After the court remand, Kerman filed AL 407A on May 28, 2019, seeking a revenue shortfall of \$489,486.30 for the period February 2016 through July 2016. Kerman's calculation is based on the sum components of 1) the CHCF-A support differential between the previous program support adopted by Resolution T-17505 and the amount determined by D.16-06-053; 2) undercollected revenue related to the Commission adopting the GRC decision after the beginning of the 2016 test year; and 3) late interest.

Kerman's and Staff's True-up Calculation

Pursuant to Resolution T-17531, Kerman returned the entirety of the interim relief provided to them from February 2016 through July 2016, so there is no residual interim relief component to be entered into the calculation. In reviewing Kerman's calculation methodology and components thereof, Staff agrees that the CHCF-A program should pay Kerman \$489,486.30, as itemized in Appendices A, B and C.

Appendix A, Part A "Additional CHCF-A Support Due Kerman" calculates the line item differential between the previously adopted Resolution T-17505 monthly support and TY 2016 GRC D.16-06-053: \$318,693.18.

Part B "Increase in Local Network Services for TY 2016" itemizes the differential in undercollected Network Services revenue between the beginning of the 2016 TY and the issuance of D.16-06-053: \$142,690.98.

Part C "Erroneous calculation in T-17531" rectifies a previous calculation error of \$3,154.49 (see also Appendix B).

Part D subtotals Parts A through C, and Part E itemizes "Late Interest", \$24,947.65, as detailed in Appendix C. The Part F undercollection calculation totals to \$489,486.30.

Conclusion

Staff therefore recommends that the CHCF-A fund should pay Kerman \$489,486.30, including interest, for TY 2016 GRC, within 45 days from the effective date of this Resolution. This settles what the Commission ordered in D.16-02-022 and D.16-06-053 for a true-up of interim relief to adopted revenue requirement and rates for TY 2016, and is consistent with both Decisions.

CD/SNR

COMMENTS

P.U. Code section 311(g)(1) requires that a draft resolution be served on all parties and be subject to a public review and comment period of 20 days, prior to a vote of the Commission on the resolution. A draft of today's resolution was distributed for comment to Kerman and to parties on the service lists for R.11-11-007 and A.11-12-011.

FINDINGS

1. On December 28, 2011, Kerman Telephone Company (Kerman) filed a General Rate Case (GRC) Application 11-12-011 seeking new rates.
2. On January 29, 2016, Kerman filed a Motion for Interim Relief in its GRC proceeding.
3. On February 25, 2016, the Commission adopted Decision (D.)16-02-022 granting Kerman's Motion. The Commission approved Kerman's interim revenue requirement of \$9,913,767, which resulted in a monthly revenue increase of \$1,112,373, to be divided into twelve equal monthly payments of \$92,697.75.
4. In D.16-02-022, the Commission held that the interim relief granted to Kerman was subject to a future true-up and possible refund.
5. While the GRC proceeding was in process, Kerman received six monthly CY CHCF-A support payments, which included interim relief during the months of February through July of 2016.
6. On June 23, 2016, the Commission issued D.16-06-053 and adopted a final revenue requirement and rates for Kerman's Test Year 2016. The Commission ordered Kerman to file a Tier 3 Advice Letter (AL) to true-up the difference between its interim revenue requirement—including CHCF-A support and interim relief and newly adopted revenue requirement and rates.
7. On July 29, 2016, Kerman filed Tier 3 Advice Letter 407, as directed by D.16-02-022 and D.16-06-053, to true-up its interim revenue requirement and adopted revenue requirement and rates for Test Year 2016.
8. On February 9, 2017, the Commission adopted Resolution T-17531 and ordered Kerman to refund \$559,783.78 to the CHCF-A.
9. On March 16, 2017, Kerman filed an application for rehearing of Resolution T-17531. On December 5, 2017, the Commission adopted D.17-11-036 denying Kerman's application for rehearing.

CD/SNR

10. On January 4, 2018, Kerman filed a petition for writ of review for D.17-11-036 in the Fifth Appellate District, Court of Appeal of the State of California (Court).
11. On April 26, 2019, the Court annulled Resolution T-17531 and D.17-11-036. The Court remanded the case to the Commission to reconsider Kerman's AL 407.
12. On May 28, 2019, Kerman filed AL 407A seeking a revenue shortfall of \$489,486.30 for the period February 2016 through July 2016.
13. Revenue shortfall includes the revenue from local network services and CHCF-A support due to the fact that the Commission did not issue the GRC decision, D.16-06-053, by January 1st of the 2016 test year.
14. Appendix A, Part A calculates the difference between the amount Kerman received in its D.16-06-053 versus what it actually received between February and July of 2016, from R.T-17505 Calendar Year support, which is a shortfall of \$53,115.53 monthly for six months or \$318,693.18 total.
15. Appendix A, Part B calculates the shortfall in local network service revenues from February to July or \$23,781.83 monthly and \$142,690.98 total.
16. Appendix A, Part C calculates the correct amount Kerman should have remitted as ordered by Resolution T-17531. Subtracting the amount Kerman actually remitted less the correct amount Kerman should have remitted, Kerman is owed \$3,154.49.
17. Appendix A, Part D subtotals Part A, B and C for a total of \$464,538.65.
18. Appendix A, Part E Late Interest calculates the interest owed Kerman at the 90-Day Financial Commercial Paper Rate. The calculation is shown in Appendix C for a total owed Kerman of \$24,947.65.
19. Appendix A, Part F adds Part D and Part E and totals \$489,486.30, the total amount owed Kerman.
20. Staff recommends that Kerman be paid \$489,486.30 within 45 days from the effective date of this Resolution in compliance with D.16-02-022 and D.16-06-053.

THEREFORE, IT IS ORDERED that:

1. In compliance with D.16-02-022, Ordering Paragraph 4, and D.16-06-053, Ordering Paragraphs 2 and 12, Kerman Telephone Company shall receive a one-time lump sum payment from the California High Cost Fund-A of \$489,486.30 within 45 days from the effective date of this Resolution.

This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on - _____, the following Commissioners voting favorable thereon:

Alice Stebbins
Executive Director

APPENDIX A

Appendix A

Kerman TY 2016 Adjustments

A. Additional CHCF-A Support Due Kerman

	Resolution T-17505 Calendar		
	D.16-06-053 Test Year	Year 2016 CHCF-A Support until	CHCF-A
	2016 CHCF-A	D.16-06-053 was issued (1)	Shortfall
January	\$ -	\$ -	\$ -
February	\$ 348,092.58	\$ 294,977.05	\$ 53,115.53
March	\$ 348,092.58	\$ 294,977.05	\$ 53,115.53
April	\$ 348,092.58	\$ 294,977.05	\$ 53,115.53
May	\$ 348,092.58	\$ 294,977.05	\$ 53,115.53
June	\$ 348,092.58	\$ 294,977.05	\$ 53,115.53
July	\$ 348,092.58	\$ 294,977.05	\$ 53,115.53
	\$ 2,088,555.48	\$ 1,769,862.30	\$ 318,693.18

B. Increase in Local Network Services for TY 2016

D.16-06-053 Rates - Appendix A	\$ 2,036,922.00
Estimate at Present Rates (2)	\$ 1,751,540.00
	<u>\$ 285,382.00</u>
Monthly Increase in Local Network Svcs. (Divided by 12)	<u>\$ 23,781.83</u>
January	\$ -
February	\$ 23,781.83
March	\$ 23,781.83
April	\$ 23,781.83
May	\$ 23,781.83
June	\$ 23,781.83
July	\$ 23,781.83
	<u>\$ 142,690.98</u>

C. Erroneous calculation in T-17531

Amount Kerman returned to CHCF-A in T-17531 (3)	\$ 559,783.78
Correct amount Kerman owed in T-17531 (4)	\$ 556,629.29
	<u>\$ 3,154.49</u>

D. **Sub-Total (A+B+C)** **\$ 464,538.65**

E. Late Interest

90-Day Financial Commercial Paper Interest (5)	\$ 24,947.65
--	---------------------

F. **Kerman CHCF-A Support, Local Network Services and Other Adjustments (D+E)** **\$ 489,486.30**

(1) Excludes interim rate relief paid February through July.

(2) Source: Rebuttal testimony of David Clark, April 16, 2015, page DC0347.

(3) Per Administrative Services, Fiscal Office

(4) See Table 2

(5) See Table 3

APPENDIX B

Appendix B

Calculation of Monthly CHCF-A Received By Kerman With 90-Day Financial Commerical Paper Interest

	A	B	C	D	E
	Date Kerman Received Interim Rate Relief	Monthly CHCF-A Support from D.16-02-022	Financial 90-Day Commercial Paper Rate	Days to 8/1/2016	Interest
February Payment	3/31/2016	\$ 92,697.75	0.54%	123	\$ 168.68
March Payment	4/27/2016	\$ 92,697.75	0.55%	96	\$ 134.09
April Payment	6/23/2016	\$ 92,697.75	0.55%	39	\$ 54.48
May Payment	6/28/2016	\$ 92,697.75	0.57%	34	\$ 49.22
June Payment	7/8/2016	\$ 92,697.75	0.55%	24	\$ 33.52
July Payment	7/30/2016	\$ 92,697.75	0.55%	2	\$ 2.79
Total		\$ 556,186.50			\$ 442.79
					\$ 556,629.29

APPENDIX C

Appendix C

Late Interest Calculation - 90-Day Financial Commercial Paper									
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Time Period	CHCF-A Support Shortfall	Increase in Local Network Services Revenue	Erroneous Calculation in T-17531 and Amount Kerman Remitted	Late Interest - Prior Period (J)	Amount	Cumulative Amount	Days	90-Day Financial Commercial Paper Rate	Late Interest
Jan-2016	\$ -	\$ -	\$ -		\$ -			0.57%	\$ -
Feb-2016	\$ 53,115.53	\$ 23,781.83			\$ 76,897.36	\$ 76,897.36	29	0.54%	\$ 32.99
Mar-2016	\$ 53,115.53	\$ 23,781.83		\$ 32.99	\$ 76,930.35	\$ 153,827.71	31	0.55%	\$ 71.86
Apr-2016	\$ 53,115.53	\$ 23,781.83		\$ 71.86	\$ 76,969.22	\$ 230,796.93	30	0.55%	\$ 104.33
May-2016	\$ 53,115.53	\$ 23,781.83		\$ 104.33	\$ 77,001.69	\$ 307,798.62	31	0.57%	\$ 149.01
Jun-2016	\$ 53,115.53	\$ 23,781.83		\$ 149.01	\$ 77,046.37	\$ 384,844.99	30	0.55%	\$ 173.97
Jul-2016	\$ 53,115.53	\$ 23,781.83		\$ 173.97	\$ 77,071.33	\$ 461,916.32	31	0.62%	\$ 243.23
Aug-2016				\$ 243.23	\$ 243.23	\$ 462,159.55	31	0.73%	\$ 286.54
Sep-2016				\$ 286.54	\$ 286.54	\$ 462,446.09	30	0.75%	\$ 285.07
Oct-2016				\$ 285.07	\$ 285.07	\$ 462,731.16	31	0.72%	\$ 282.96
Nov-2016				\$ 282.96	\$ 282.96	\$ 463,014.12	30	0.71%	\$ 270.20
Dec-2016				\$ 270.20	\$ 270.20	\$ 463,284.32	31	0.87%	\$ 342.32
1/1/2017- 3/20/2017				\$ 342.32	\$ 342.32	\$ 463,626.64	79	1.15%	\$ 1,153.99
3/21/2017 - 12/31/2017			3,154.49	\$ 1,153.99	\$ 4,308.48	\$ 467,935.12	286	1.15%	\$ 4,216.54
2018				\$ 4,216.54	\$ 4,216.54	\$ 472,151.66	365	2.18%	\$ 10,292.91
Jan-2019				\$ 10,292.91	\$ 10,292.91	\$ 482,444.57	31	2.59%	\$ 1,061.25
Feb-2019				\$ 1,061.25	\$ 1,061.25	\$ 483,505.82	28	2.49%	\$ 923.56
Mar-2019				\$ 923.56	\$ 923.56	\$ 484,429.38	31	2.48%	\$ 1,020.35
Apr-2019				\$ 1,020.35	\$ 1,020.35	\$ 485,449.73	30	2.48%	\$ 989.52
May-2019				\$ 989.52	\$ 989.52	\$ 486,439.25	31	2.48%	\$ 1,024.59
Jun-2019				\$ 1,024.59	\$ 1,024.59	\$ 487,463.84	30	2.48%	\$ 993.62
Jul-2019				\$ 993.62	\$ 993.62	\$ 488,457.46	31	2.48%	\$ 1,028.84
				\$ 1,028.84					
Totals	\$ 318,693.18	\$ 142,690.98	\$ 3,154.49	\$ 24,947.65		\$ 489,486.30			\$ 24,947.65
			\$ 464,538.65	\$ 489,486.30					